G-012/AA-93-218 ORDER APPROVING ENTITLEMENT CHANGES, APPROVING UNDERCHARGE RECOVERY, AND REQUIRING FURTHER FILINGS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Marshall Johnson	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner

In the Matter of Western Gas Utilities, Inc. Converting its Demand Entitlements on Northern Natural to New Services

ISSUE DATE: December 20, 1993

DOCKET NO. G-012/AA-93-218

ORDER APPROVING ENTITLEMENT CHANGES, APPROVING UNDERCHARGE RECOVERY, AND REQUIRING FURTHER FILINGS

PROCEDURAL HISTORY

I. The Company's Proposal

On November 23, 1992 Western Gas Utilities, Inc. (Western or the Company) filed a request for approval of a change in pipeline demand entitlements. The Company's pipeline supplier, Northern Natural Gas Company (Northern), had unbundled sales and transportation services under its New Services Settlement with the Federal Energy Regulatory Commission, making existing services obsolete. The Company proposed to convert the services it was receiving under Northern's existing tariffs (Contract Demand, Firm Transportation, Seasonal Service, and Winter Peaking Service) to new services under the new tariffs (Transportation Firm-12 Base, Transportation Firm-12 Variable, Transportation Firm-5, Sales Firm-12, and Sales Firm-5).

The Company also requested approval of a 223 Mcf/day increase in total firm entitlements to meet the needs of new customers. Finally, the Company sought to recover in its annual Purchased Gas Adjustment true-up a four-month $.0018/Mcf undercharge discovered by the Department in the course of its review of the Company's filing.

On July 19, 1993 the Department of Public Service (the Department) filed comments recommending modification and approval of the Company's proposal. On August 2, 1993 the Company filed responsive comments. On September 24, 1993 the Department filed final comments. The matter came before the Commission on November 24, 1993.

FINDINGS AND CONCLUSIONS

II. Summary of the Issues

The Department recommended the Commission approve the mix of new services proposed by the Company[1], approve the proposed 223 Mcf increase in firm entitlements, require the Company to purchase gas from at least two third-party suppliers, require the Company to examine the feasibility of using TFX contracts to meet future demand, and approve the recovery of the undercharge through its annual PGA true-up.

At the November 24 hearing, Company representatives presented new information about the Company's sources of supply. They explained that, although Western has an all-requirements contract with one supplier, it buys additional gas for underground storage from others. The Company had failed to make required filings under the Purchased Gas Adjustment Rules[2] explaining these changes as they occurred. This failure to comply with the rules, together with inaccuracies in the Company's Purchased Gas Adjustment (PGA) reports discovered by the Department, left the Department and the Commission concerned about the Company's regulatory compliance practices.

III. Commission Action

A. New Services Conversion, Entitlement Increase, and Recovery of Undercharges Approved

The Commission concurs in the Department's analysis of the Company's request for approval of its conversion to Northern's new services tariff, and will approve the conversion. The Commission also agrees with the Department on the appropriateness of the additional 223 Mcf/day entitlement increase and will approve it. Similarly, the Commission will authorize the Company to recover in its annual PGA true-up the undercharges discovered by the Department.

B. Consideration of TFX Service Required

Western's current supply portfolio includes no TFX contracts, variable-length, renewable contracts reserving additional capacity at negotiated quantities, times, and prices. TFX

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[1] The Department took issue with the Company's use of Sales Firm-5 service. Since that service has now been discontinued, it is unnecessary for the Commission to reach that issue.

[2] Minn. Rules, parts 7825.2900-2920.

service differs from other forms of firm service chiefly in its flexibility. It can be an ideal vehicle for reliably supplementing supply during periods of predictably high need without incurring long term commitment. This can make it invaluable to utilities with heavy residential space-heating loads, which include Western. The Commission will require Western to conduct a careful analysis of the price and reliability advantages TFX services might offer the Company, especially in meeting winter need, and to consider entering into TFX contracts in the future.

C. Two Third-Party Suppliers Required

The Commission is concerned about Western's reliance on a single supplier for its entire gas supply. Normally, Minnesota gas utilities contract with at least two suppliers, to ensure back-up supplies in emergencies and to exploit the price advantages of competition.

Although reliability of supply is important for all gas utilities, it is critical for Western, whose customer mix is dominated by residential heating customers. Having fewer interruptible customers reduces Western's margin for error and its options in a supply crisis. Given these facts, the Company needs the additional security that comes from having multiple suppliers. The Commission will require the Company to maintain at least two sources of supply and to make a filing on its progress in implementing this directive within 60 days.[3]

D. Improved PGA Performance Required

In comments at the November 24 hearing Western acknowledged a history of difficulty in complying with regulatory reporting requirements, especially monthly PGA reporting requirements. The Department reported Company performance was improving, but was still below the norm. For example, while the Company's monthly PGA reports are often late and still contain errors, the number of errors appears to be diminishing.

The Commission will no longer tolerate this lax compliance with regulatory requirements. While both Department and Commission staff stand ready to help utilities and intervenors with regulatory complexities, neither agency has the personnel necessary to redo routine filings.

[3] The Commission understands that the Company views its increased storage capacity as the equivalent of a second source of supply. The Commission does not necessarily reject this proposition. The information in the present record, however, does not demonstrate that the storage option provides the same reliability and price advantages as multiple suppliers.

The Department has offered to meet with Western's regulatory compliance staff and answer questions about the PGA process. However, the Commission reminds Western that it is the Company's responsibility to develop the expertise necessary to comply promptly and completely with regulatory requirements, including monthly PGA reporting requirements. If the Company's PGA reports do not improve, the Commission will on its own motion initiate an investigation under Minn. Rules, part 7825.2920, subp. 3, into whether the Company should continue to be authorized to use the PGA rate adjustment.

E. Departmental Oversight Required

The Commission appreciates the assistance the Department has given Western in meeting its PGA reporting obligations and the oversight the Department has exercised to protect ratepayers, the public, and the Company. Continued Departmental oversight is required, especially in regard to Company compliance with the requirements to explore the potential advantages and availability of TFX services and to find and use at least two natural gas suppliers.

ORDER

1. The Company's proposal for converting its entitlements to Northern's new services tariff is approved.

2. The Company's proposal to add 223 Mcf/day in firm entitlements is approved.

3. The Company's proposal to recover in its annual Purchased Gas Adjustment true-up a four-month $.0018/Mcf undercharge discovered by the Department is approved.

4. The Company shall conduct an analysis of the price and reliability advantages of TFX services, especially in meeting winter need, and shall enter into TFX contracts in the future to the extent they are available and warranted by that analysis.

5. The Company shall maintain at least two sources of natural gas supply and shall make a filing within 60 days of the date of this Order detailing its progress in implementing this directive.

6. The Company shall take all steps necessary to bring its administration of its Purchased Gas Adjustment schedule and its PGA reporting performance into conformity with Commission rules.

7. The Department shall continue to monitor the Company's performance under the Purchased Gas Adjustment rules, shall monitor the Company's compliance with the terms of this Order, and shall promptly report to the Commission any deviation from the terms of either.

8. Within 60 days of the date of this Order, the Department shall file an informal status report on Company progress in complying with the terms of this Order.

9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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